

SB 174 – Revise Laws on Revenue Administration

Section 3 - MCA §15-1-216 – Substantial Understatement of Income Penalty

Individual Income Tax (Chapter 30)

Example 1:

- Taxpayer filed return and paid a tax liability of \$1,000
- Per audit, the adjusted tax liability is \$4,000

Does the understatement (\$3,000) exceed the greater of 10% of the tax required to be shown on the return (10% of \$4,000 = \$400) or \$2,500?

Yes: Penalty is 20% of underpayment (\$3,000) = \$600

Example 2:

- Taxpayer filed return and paid a tax liability of \$750
- Per audit, the adjusted tax liability is \$1,000

Does the understatement (\$250) exceed the greater of 10% of the tax required to be shown on the return (10% of \$1,000 = \$100) or \$2,500?

No: Penalty will not be assessed.

Corporation License Tax (Chapter 31)

Example 1:

- Taxpayer filed return and paid a tax liability of \$30,000
- Per audit, the adjusted tax liability is \$50,000

Does the understatement (\$20,000) exceed the lesser of 10% of the tax required to be shown on the return (10% of \$50,000 = \$5,000) or \$500,000?

Yes: Penalty is 20% of underpayment (\$20,000) = \$4,000

Example 2:

- Taxpayer filed return and paid a tax liability of \$200,000
- Per audit, the adjusted tax liability is \$210,000

Does the understatement (\$10,000) exceed the lesser of 10% of the tax required to be shown on the return (10% of \$210,000 = \$21,000) or \$500,000?

No: Penalty will not be assessed.